

The future of the government: economic and political aspects

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Yulia Tyshchenko, Head, Civil Society Programs

Slightly more than a year ago the new government of Anatoly Kinakh began its work. This year, the anniversary left a mixed impression, as regardless of reported economic progress, due to a number of economic and political factors it was unclear if the government would survive.

The economic reports look encouraging and speak in favor of the government, though the achievements are explained in terms of a number of reasons that are linked not as much to effective governance but to objective components of the Ukrainian economy, including the political factors.

«Nowadays, looking back and analyzing what has been done, one may definitely state that economic growth in this country has acquired stable, moreover, irreversible nature» (Uriadovyi Kurrier, May 29, 2002), Ukrainian Prime Minister Kinakh announced when summing up the results of his first year. The figures partially reflect the main trends and parameters of the present economic growth experienced by Ukraine. For instance, the real GDP grew by 9.1% compared to 5.9% in 2000. According to the report, made by the Prime Minister, industrial output grew by 14.2% in 2001, which allows to claim that «by the industrial output the country has returned to the level of 1994». According to Kinakh, particularly positive was the fact that the growth was achieved – for the first time in the country's economy – outside the traditional sources, oriented at raw materials. Nowadays the growth can be observed in processing industry, agriculture, constructions and oil processing. According to official statistics, almost 7 million of Ukrainian peasants received almost 26.5 million hectares of agricultural land; therefore, almost half of all Ukrainian land suitable for farming is not privately owned. It was reported that 70% of former collective farmers have received property certificates for their land, and the former collective farms have been reformed.

According to the Cabinet of Ministers, in 2001 real monetary incomes of the population increased by 9% compared to 2000, and a real average salary grew by 19.3%. In January – April 2002, according to the Prime Ministers, the real incomes further increased by 16.6%. Statistics also indicate that the government has been successful in coping with wage arrears: almost 1.5 billion hryvnias of wage arrears were paid in 2000, and 2.2 billion in 2001. From June 1, 2001 to June 1, 2002, the figure has decreased by 2 billion hryvnias. The capital investment in 2001 increased by 17.2% compared to the year

before, and the capital investment growth in the first half of 2002 reached 9.6%. As much as 47% of the capital investment was used for modernization of Ukrainian enterprises (Uriadovyi Kurrier, May 29, 2002).

Certain positive changes can be observed in the context of attracting foreign direct investment into the Ukrainian economy. Notwithstanding the election race that are usually not the best time for attracting investment and economic growth, within the first quarter of 2002 foreign businesses invested \$237.9 million, or 41.4% more than within the same period last year, the government report says. According to the State Committee of Statistics, though, the increase in foreign direct investment in Ukraine in 2002 reached \$531.2 million, or 10.4% less than in 2000. In 2001, the FDI totaled \$813.7 million. The withdrawal of investment by non-residents was almost one third higher than in 2000 and totaled \$267.4 million. Apart from global economic trends, these figures can be explained in terms of the influence of the election process and related uncertainty, as business and investment traditionally tend to take a wait-and-see stance in order to avoid implications of potential political instability.

Independent experts only partially share the government's optimism about Ukraine's economic growth. One of the «instruments of changes» which, according to Anatoly Kinakh, had a positive impact on growth, is accumulation of experience and continuity of efforts of the previous governments, the «self-sufficient evolution of the government within the concept of the administrative reform», the introduction of the institution of state secretaries in accordance with the President's decrees, the team work, the establishment of interaction with the 3rd parliament, the search for adequate responses to challenges in the context of global economic competition.

Meanwhile, experts suggest that the causes of economic growth may lie also in objective economic trends. According to head of UCIPR's economic program Maxim Latsyba, the current growth has been caused by increase in business and entrepreneurial activity of Ukrainians who have been gradually accumulating practical experience of living in a market economy. The positive role in the context is played by the growth of purchasing power of the population and the favorable situation in the international markets. According to economic observer of the *Kompanion* journal Iryna Klymenko, «the restoration of the investment activity of enterprises, linked to the absence of the need to finance the election campaign» may also be seen as a reason for positive economic figures for April. Noteworthy, both Ukrainian and foreign experts are less optimistic about Ukraine's prospects. The *Kompanion* #20, 2002, refers to predictions of the IMF experts about Ukraine's economic situation in the near future. It is suggested that «Ukraine's GDP will rise by 5% compared to 9.1% in 2001», «consumer price index will increase by 9.8% compared to 6.1% last year, and the consolidated budget deficit will reach 1.8% of the GDP, which is 0.2% more than in 2001». However, notwithstanding the figures, the growth will likely remain in 2002. The government's ability to keep the pace will depend on the increasing need to approve and effective and realistic Tax Code and a number of other economic laws that would help micro-and macroeconomic development.

The legislature is still struggling with the draft law «On the Cabinet of Ministers». The number of vetoes the draft received from president Kuchma is another story. The current prospects for approving that law look rather problematic due to a deep divide in views on patterns of governance and formation of the government, shared by different political forces represented in the parliament. The structuring process in the parliament make the future of the bill even more uncertain. «This issue may be raised only when there are real preconditions. Nowadays they are not present yet,» says Leonid Kravchuk. «We will such a law that would make the Cabinet of Ministers a genuinely supreme executive body, but the current regime needs a «pocket» government,» says Oleksandr Moroz (Kompanion, #22, 2002).

In addition to other things, the current government must establish a fruitful dialogue with the current parliament; otherwise the government's performance may be blocked. However, in this sense the political reality offers more questions than answers, as positions in the government appear to be a bone of contention between the «winners» and «outsiders» of the recent race that actually made it to the parliament. The future of this government is likely to be a matter of political bargaining between them.

According to the Constitution, the government does not have to resign after a new parliament is elected. The notion of a coalition government, broadly discussed by a variety of political forces, is not present in the Ukrainian legislation, even though there were a number of steps to change that. The most recent step, like before, produced no results. New initiatives regarding formation of the government, offered by members of Nasha Ukraina, including the idea of a Premiership Contract, received no response. Leader of the Ukrainian People's Rukh Yuri Kostenko noted that the provisions of that contract would be «non-confrontational, but such that derives from the practice of democratic countries: the people elect the government and there must be changes after the elections» (as cited by the Press Service of Nasha Ukraina, May 27, 2002).

Before the election of the leadership of the parliament, any discussions about possible resignation of the government were interpreted by the president and his backers as «political bargaining» aiming at making the government hostage of the situation. In April and May, the initiatives of Nasha Ukraina about the dismissal of the government and formation of the executive branch according to new principles were not supported by the president. «Making new appointments is not justified today,» said political coordinator of Nasha Ukraina Roman Bezsmetrnyi. He was quoted by the block's press service on May 11 as saying that it would be more relevant to «finally form the model of the new parliament before», and then, taking into account the configuration of political forces, make senior staff changes. According to Bezsmetrnyi, most of recent changes of officials do not match the political configuration and are made counter to the 2002 election results. However, some parameters of the political situation has changed with the appointment of former presidential chief of staff Volodymyr Lytvyn to the position of the Speaker of the parliament. Lytvyn became the Speaker due to titanic efforts of the pro-presidential factions. In the future it may be difficult to gather 226 votes to secure positive voting on controversial issues. Therefore, the presidential forces and the president himself will have to agree to political compromise on some senior appointments, including the seats in the

government.

«One should not show ambitions today. I believe it is necessary, first of all, to make a deal with Nasha Ukraina. No matter how hard it is, no matter how difficult it is, if that is necessary the positions in the Cabinet of Ministers should be dragged in, and positions regarding governors, but there is a need to find a way out of this political crisis,» said de facto «director» of the previous parliament Oleksandr Volkov (STB, Vikna, News, 4, 2002).

Another political deal discussed nowadays is a political agreement proposed by Nasha Ukraina, designed to find a compromise on the division of parliamentary committees and to prevent the loss of the image and positions of winners of the parliamentary elections. The agreement was proposed in response to the draft resolution, introduced by Yedyna Ukraina and the SDPU(o) and intended to secure the leadership of 12 committees and the special commission for privatization for the Yedyna Ukraina, 7 committees for Nasha Ukraina, 4 committees for the Communists, 2 committees for the SDPU(o). Oleksandr Moroz's Socialists and Yulia Tymoshenko's block were offered one committee each. On June 4 Nasha Ukraina called on other political forces in the parliament to sign a contract on joint action and announced that it would accept «only complex approach to reforming the system of power through deepening economic and social transformations». After signing the joint action plan by parliamentary factions it was suggested that a tripartite agreement should be signed with the president and the Cabinet of Ministers.

While negotiations continue and potential candidates to occupy various positions in the government – including the one of the prime minister - are discussed, no specific names are being named, says Petro Poroshenko of Nasha Ukraina (www.korrespondent.net, June 7, 2002).

So far the initiatives look like attempts to do some facelift to the government. Notwithstanding the seemingly convincing reports about «irreversible» economic growth trends, some political signs suggest that the situation of Anatoly Kinakh and his government are far from stable. Anatoly Kinakh, who was seen as a figure of political compromise from the beginning of the performance of this government has ceased to be perceived as such, though if another, more suitable «figure of compromise» is found, his positions may be strengthened and his government will survive.

It is still unclear how much time this government has. Noteworthy, some time ago some sources «leaked» information about the intention of First Vice Prime Minister Oleg Dubina to resign. While the rumor was not confirmed, it provoked discussions that Dubina could wish to distance himself from the «doomed» government before the radical shake-up. It was believed that distancing himself from the government and alleged special favorable treatment showed to Dubina to president Leonid Kuchma could allow Dubina to survive anything this government might face.

While most of Ukrainian prime ministers were dismissed in summer, this time it is likely that the government will survive at least till autumn. So far the parliament has been busy

with other matters, but in autumn the prime minister may be dismissed based on the formal procedure of the government's report to the parliament, which may result in a negative vote. There is, however, a different prospect: the government may receive a one-year «safe ride» if the parliament approved the government's program of action. According to the Constitution, if the parliament approves the government's program of action it may not vote on no confidence to the government within one year. Supporters of this government and the «stability» it offers may seek this outcome and ensure that Anatoly Kinakh remains prime minister till the presidential elections scheduled for 2004. Theoretically, Yedyna Ukraina may find the necessary 226 votes in favor of the government's program of action. However, it is unclear to what extent such a scenario corresponds with the present-day task of finding a compromise between major political forces. It is likely that the choice in favor of a specific scenario will be made in autumn, when the government's future will be decided.

Comment: Most likely, the Kinakh government will be dismissed. The rumor about Oleg Dubina's resignation probably suggests that he does not want to «burn» together with the government. Though, there have been so many Prime Minister's PR campaigns lately that show he does not intend to give away his powers easily. On the other hand, going public may indicate that Kinakh feels that his positions are rather weak. Possibly, the government will be changed in autumn, for that is the term identified by the political forces who seem to be prepared to act at that time.

Maxim Latsyba, UCIPR